

Message Text

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PAGE 01 BANGKO 21482 301212Z

44

ACTION EB-07

INFO OCT-01 EA-07 NEA-10 ISO-00 CAB-02 CIAE-00 COME-00

DODE-00 DOTE-00 INR-07 NSAE-00 CIEP-01 FAA-00 PM-04

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SUBJ: AIR SIAM AND AIR CEYLON

REF: A) COLOMBO 2606, B) COLOMBO 1916, C) BANGKOK 15190 (NOTAL)

1. EMBOFFS CALLED ON VIRACHAI VANNUKUL, PRESIDE T AND MANAGING DIRECTOR FO AIR SIAM, ON JULY 28 AND HELD A LONG DISCUSION ABOUT AIR SIAM'S FUTURE INCLUDING ITS ASSOCIATION WITH AIR CEYLON.

2. VIRACHAI SAID THAT AIR SIAM SIGNED A FIVE YEAR MANAGEMENT CONTRACT WITH AIR CEYLON IN EARLY 1976 IN WHICH AIR SIAM AGREED TO PROVIDE A NUMBER OF SERVICES. THESE INCLUDE ACTING AS AIR CEYLON'S WORLDWIDE GENERAL SALES AGENT, PROVIDING SENION MANAGEMENT TRAINING FOR AIR CEYLON EXECUTIVES IN BANGKOK, ACTING AS AIR CEYLON'S PURCHASING/LEASING AGENT, AND OPERATING A ONCE-A-WEEK FLIGHT ON AIR CEYLON'S BEHALF TO TRAIN ITS CREW. AIR SIAM WOULD "WET" LEASE ONE OF ITS JUMBOS TO AIR CEYLON FOR A ONCE-A-WEEK ROUND-TRIP FLIGHT

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PAGE 02 BANGKO 21482 301212Z

BANGKOK-COLOMBO-BAHRAIN-ZURICH-PARIS. THIS MEANS AIR SIAM

WOULD PROVIDE EVERYTHING--PLANE, CREW, ETC.--EXCEPT THAT AN AIR CEYLON STICKER WOULD BE ADDED TO THE PLANE'S EXTERIOR AND AIR CEYLON'S ROUTE RIGHTS WOULD BE USED. THIS AGREEMENT IS DUE TO BEGIN NOVEMBER 1, 1976.

3. UNTIL AIR SIAM OR AIR CEYLON CAN PURCHASE OR LEASE ADDITIONAL WIDE BODY AIRCRAFT, VIRACHAI SAID THAT PROBABLY HE WOULD BE FORCED TO ALTERNATE USING AIR SIAM'S ONE DC-10 AND ONE 747 BECAUSE AT PRESENT IT DOES NOT OPERATE ANY OTHER AIRCRAFT AND BOTH ARE ALMOST FULLY UTILIZED IN THE CROSS PACIFIC RUNS. IT WOULD BE IDEAL, HE FELT, IF ONE TYPE COULD BE USED TO PROVIDE TRAINING FOR AIR CEYLON BUT FOR THE TIME BEING THIS IS IMPOSSIBLE.

4. HE VISITED THE U.S. LATE LAST YEAR TO NEGOTIATE ON AIR CEYLON'S BEHALF FOR NEW AIRCRAFT BUT WAS FORCED TO CANCEL THE LEASE OF TWO LOCKHEED TRI-STARS WHEN THE LOCKHEED SCANDAL SURFACED. AT PRESENT, AIR CEYLON OPERATES THREE OR FOUR AVROS (FOR DOMESTIC FLIGHTS) ONE TRIDENT AND ONE DC-8-53 ON LEASE/PURCHASE FROM UTA. (AIR CEYLON WILL NOT RENEW ITS PRESENT MANAGEMENT CONTRACT WITH UTA WHICH, VIRACHAI SAID, WAS NOT PROVIDING ANY TRAINING BENEFITS TO AIR CEYLON.) VIRACHAI FEELS BOTH THE TRIDENT AND THE DC-8-53 FAN JET ARE UNECONOMICAL TO OPERATE AND AIR CEYLON WILL HAVE TO REPLACE THEM WITH WIDE BODY JETS: THE DC-10, THE 747 OR THE TRI-STAR, AT LEAST FOR ITS INTERNATIONAL RUNS.

5. VIRACHAI EXPOUNDED ON WHY HE MADE THIS ARRANGEMENT WITH AIR CEYLON. WHEN AIR SIAM WAS "BLOCKADED LIKE ISRAEL" BY THAI AIRLINES INTERNATIONAL (TAI) SEVERAL YEARS AGO, THERE WAS ONLY ONE WAY FOR AIR SIAM TO GO--SELL SERVICE. HE BELIEVES THAT AIR SIAM, AS A SUCCESSFUL ASIAN PRIVATE AIRLINE, HAS A LOT TO OFFER TO SMALLER AIRLINES IN THE AREA. HE HOPES TO NEGOTIATE SIMILAR MANAGEMENT CONTRACTS WITH SUCH CARRIERS AS UNION OF BURMA AIRWAYS, ROYAL AIR NEPAL, MERPATI (INDONESIA'S NUMBER TWO AIRLINE) AND PERHAPS EVEN THE LAO AND KHMER AIRLINES. HE ENVISAGES A POOLING ARRANGMENT WHEREBY THESE CARRIERS MIGHT COMBINE MAINTENANCE, TICKET AGENTS, ETC. SASAS TO BETTER COMPETE WITH THE LARGER REGIONAL CARRIERS LIKE MAS OR SINGAPORE AIRLINES. HE FEELS THAT EUROPEAN AIRLINES LIKE UTAWN KLM AND SAS WHO PRESENTLY ARE ASSOCIATED WITH SEVERAL ASIAN LIMITED OFFICIAL USE

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PAGE 03 BANGKO 21482 301212Z

CARRIERS ARE NOT PASSING ON REAL TRAINING AND OTHER BENEFITS TO EVENTUALLY PERMIT THESE AIRLINES TO RUN THEMSELVES, AND THAT AIR SIAM CAN OFFER A VIABLE ALTERNATIVE.

6. VIRACHAI, HOWEVER, HAS NOT LET HIS VISION OF THE FUTURE CLOUD THE POTENTIAL PRACTICAL BENEFITS FOR AIR SIAM. NATURALLY MANAGEMENT AND SERVICE CONTRACTS WITH AIR CEYLON AND OTHER CARRIERS WILL BRING ADDITIONAL REVENUE TO AIR SIAM WHICH

RECENTLY HAS BEEN STRAPPED FOR CASH TO PAY FOR ITS TWO LEASED
AIRCRAFT. IN FACT, HE ADMITTED THAT AIR SIAM DEFAULTED ON ITS
PAYMENTS TO DOUGLAS FOR ABOUT FOUR CONSECUTIVE MONTHS
EARLIER THIS YEAR WHEN SOME OF ITS SEATS TO HONG KONG
WERE REDUCED BY THE BRITISH. HE SAID THAT HE WAS ABLE TO
REACH AN AGREEMENT WITH DOUGLAS BY PROMISING TO PAY THE EXTRA
AMOUNT OWED IN INSTALLMENTS OVER THE NEXT TEN MONTHS. HE
HOPES AIR SIAM WILL BE SOLVENT AGAIN BY THE END OF THIS YEAR.
THEN HE LOOKS FORWARD TO AIR SIAM OBTAINING ANOTHER JUMBO TO
ENABLE IT TO FLY AN ADDITIONAL ROUTE TO EUROPE.
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